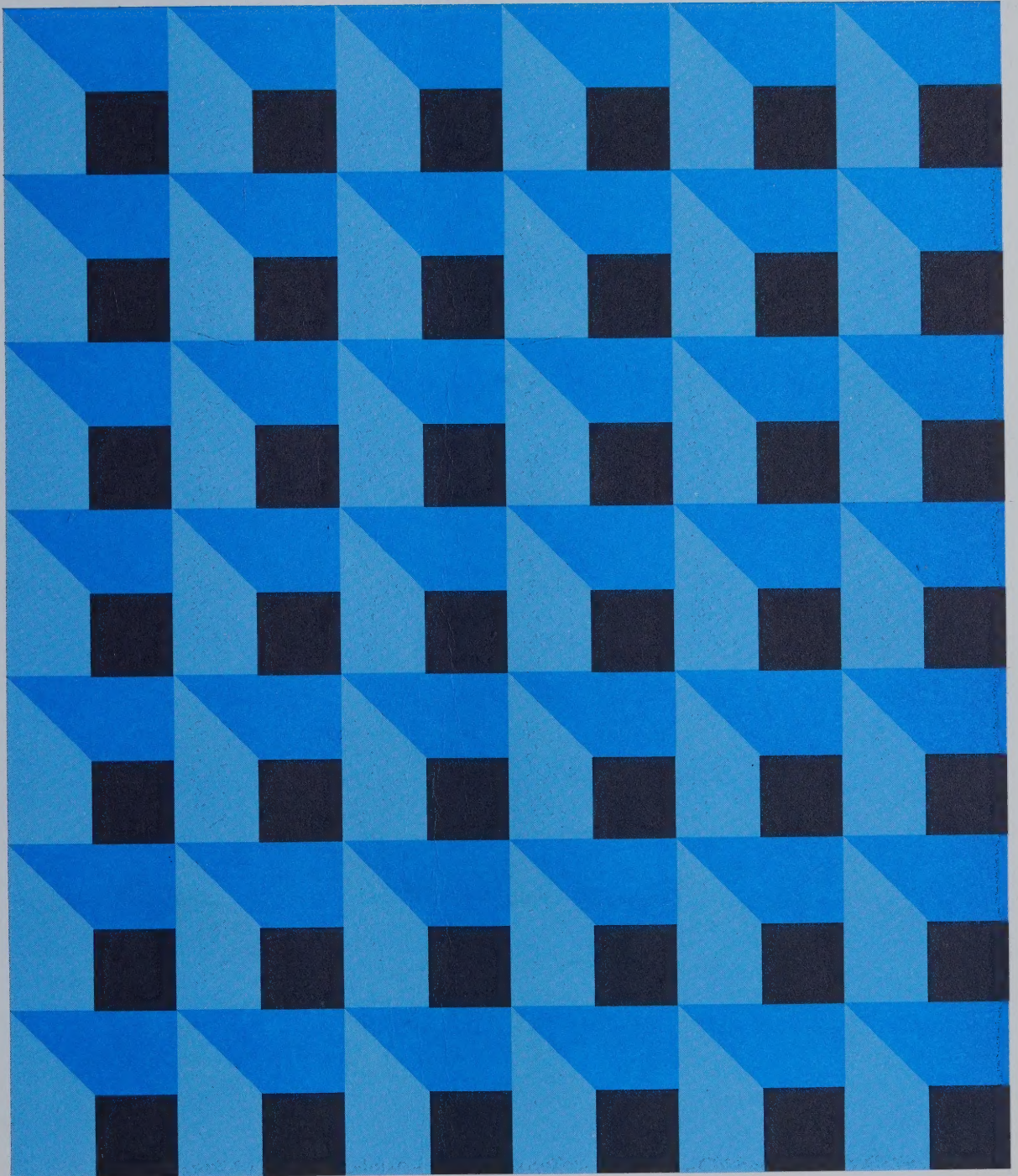


AR43



Directors and Officers

MAR 15 1968

Directors

- *T. N. Beaupré, Montreal,
Chairman of the Board and President, Domtar Limited
George W. Bourke, Montreal, *Chairman of the Board,*
Sun Life Assurance Company of Canada
Ralph W. Cooper, Hamilton,
President, Cooper Construction Company Limited
*H. Roy Crabtree, Montreal,
Chairman and President, Wabasso Limited
George H. Dobbie, Galt,
President, The Dobbie Industries Limited
Raymond Dupuis, Q.C., Montreal,
Advocate and Company Director
J. E. L. Duquet, Q.C., Montreal,
Senior Partner in the legal firm of Duquet, Mackay,
Weldon, Bronstetter, Willis and Johnston
*A. L. Fairley, Jr., Montreal,
President and Chief Executive Officer,
Hollinger Consolidated Gold Mines, Limited
Hon. Geo. B. Foster, Q.C., Montreal,
Senior Partner in the legal firm of Foster, Watt, Leggat,
Colby, Rioux and Malcolm
P. M. Fox, Montreal, *Chairman of the Board,*
The Great Lakes Paper Company, Limited
C. L. Gundy, Toronto,
Chairman of the Board, Wood Gundy Securities Limited
Roger T. Hager, Vancouver,
Chairman of the Board and Chief Executive Officer,
The Canadian Fishing Company Limited
J. G. Kirkpatrick, Q.C., Montreal,
Partner in the legal firm of Ogilvy, Cope, Porteous,
Hansard, Marler, Montgomery & Renault
Roger Létourneau, Q.C., LL.D., Quebec,
Senior Partner in the legal firm of Létourneau, Stein,
Marseille, Bienvenue, Delisle & LaRue
*A. B. Matthews, C.B.E., D.S.O., Toronto, *Chairman of*
the Board, The Excelsior Life Insurance Company
*John A. McDougald, Toronto, *Chairman of the Board*
and President, Crown Trust Company
*Maxwell C. G. Meighen, O.B.E., Toronto,
President, Canadian General Investments Limited
Nathan Pitcairn, Jenkintown, Pa.,
Director, The Pitcairn Company
*Arthur Ross, New York,
Executive Vice-President and Managing Director,
Central National Corporation
*J. N. Swinden, Toronto,
General Manager, Argus Corporation Limited
*E. P. Taylor, C.M.G., The Bahama Islands,
Chairman of the Board, The New Providence
Development Company Limited
J. T. Timmins, Montreal, *President and General Manager,*
Chromium Mining & Smelting Corp. Ltd.
*Colin W. Webster, Montreal,
President, Canadian Import Limited

*Members of the Executive Committee

Officers

- T. N. Beaupré,
Chairman of the Board and President
P. Delagrave,
Vice-President - Employee and Public Relations
C. M. Fellows,
Vice-President
W. R. Lawson,
Vice-President - Purchasing and Traffic
R. J. Moyses,
Vice-President - Finance
W. H. Palm,
Vice-President
A. E. Penney,
Vice-President - Research, Development and Engineering
S. A. Kerr, C.A., F.C.I.S.,
Secretary and Treasurer
P. F. Connell, C.A.,
Controller
E. G. Aust, C.A.,
Assistant Treasurer
J. H. Smith, C.A.,
Assistant Controller
W. J. Strain,
Assistant Controller
A. Gascon,
Assistant Secretary
H. B. Nickerson,
Assistant Secretary

Head Office

2240 Sun Life Building, Montreal 2, Que.

Transfer Agents

for preference and common shares:
Montreal Trust Company – Halifax, N.S.; Saint John, N.B.;
Montreal, Que.; Toronto, Ont.; Winnipeg, Man.;
Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York – New York, N.Y.

Registrars

for preference and common shares:
The Royal Trust Company – Halifax, N.S.; Saint John, N.B.;
Montreal, Que.; Toronto, Ont.; Winnipeg, Man.;
Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York – New York, N.Y.

Les actionnaires qui préféreraient recevoir leurs rapports en français
n'ont qu'à en aviser le Secrétaire de Domtar Limited.

Highlights

	1967	1966 restated
Sales	\$428,003,663	\$430,058,659
Income taxes – Current	\$ 4,700,000	\$ 2,800,000
Income taxes – Deferred	\$ 633,373	\$ 10,702,966
Net income	\$ 9,113,877	\$ 16,484,374
Common shares outstanding	14,700,700	14,700,700
Earnings per common share	\$ 0.60	\$ 1.10
Dividends per common share	\$ 0.90	\$ 1.00
Working capital	\$121,292,922	\$ 79,859,301
Cash flow – Total	\$ 31,997,250	\$ 49,187,340
Cash flow – Per common share	\$ 2.16	\$ 3.33
Expenditures on plant	\$ 16,426,458	\$ 57,606,192
Book value per common share	\$ 15.56	\$ 13.88
Number of preference shareholders	1,500	1,487
Number of common shareholders	49,346	45,290
Number of employees – exclusive of woods workers	17,333	18,345
Wages and salaries	\$115,518,000	\$108,670,504

Report of the Directors to the Shareholders

The consolidated financial statements of Domtar Limited and its subsidiaries for the year ended December 31, 1967, together with the report of the Auditors are submitted on behalf of your Board of Directors.

The presentation of the financial statements for 1967 has been significantly affected by the sale of the Company's Consumer Products division and by a number of changes in accounting policy.

The substantial capital gain resulting from the sale of the Consumer Products division has been credited directly to earned surplus.

In the financial statements for 1966 and in the first three quarterly reports to shareholders for 1967, the preproduction expenses of the new pulp mill and chemical plant at Lebel-sur-Quévillon were charged against income on the basis of amortizing them over five years. It has since been decided to charge such expenses against income in the year incurred. Consequently, there will be no amortization of these 1966 and 1967 costs in 1968 and future years.

In view of the bulletin regarding the calculation of deferred income taxes which was recently published by The Canadian Institute of Chartered Accountants, income taxes have been computed for the first time on a fully deferred basis. In addition, earned surplus has been reduced by the amount required to increase deferred income taxes on the balance sheet to a level that covers prior years. Previously this amount was shown in a note to the financial statements.

After giving effect to the changes mentioned above, net income after all charges amounted to \$9.1 million for 1967. If the net income for 1966 had been calculated on the same basis it would have amounted to \$16.5 million. In terms of earnings per common share the comparable amounts are 60 cents per share for 1967 and \$1.10 per share for 1966.

Consolidated sales of \$428.0 million for 1967 were marginally less than the \$430.1 million reported in the previous year. Increases in the sales revenues of some products were offset by declines in others, especially in newsprint and market pulp. In addition, sales of chemicals and construction materials were adversely affected by strikes. The

following table gives a brief summary of sales for the four major product groupings:

	1967		1966	
	millions	%	millions	%
Pulp and paper	\$272.0	63.6	\$272.3	63.3
Chemicals	57.5	13.4	56.3	13.1
Consumer products	17.5	4.1	17.4	4.0
Construction materials	81.0	18.9	84.1	19.6
	\$428.0	100.0	\$430.1	100.0

Income before deducting preproduction expenses, income taxes and minority interest amounted to \$23.0 million compared with \$35.0 million for 1966. The decline of \$12 million was due for the most part to reduced newsprint shipments, especially to the United States, depressed pulp markets, operating losses incurred at Quévillon and generally to increases in labour, materials and transportation costs which exceeded improvements in productivity or which were not offset by increases in the prices of commodities sold by the Domtar group. The interest on indebtedness also contributed to the decline. Interest costs rose by \$2.1 million to \$10.4 million for 1967. The performance of the Construction Materials and Chemicals companies was relatively good in spite of the financial effect of strikes.

Preproduction expenses incurred at the pulp mill and chemical plant at Quévillon were \$7.2 million in 1967 and, as mentioned earlier, this amount has been charged against income.

Dividends

Largely because of the short-term outlook for pulp and paper which account for some 64% of the Company's sales, the Board of Directors considered that a reduction in the common dividend was the prudent course to follow. Consequently the quarterly dividend on the common shares was reduced, beginning with the quarter ended January 31, 1968, from 25 cents per common share to 15 cents per share. The regular annual dividend

of \$1.00 per share was paid on the preference shares of the Company.

The Federal Department of National Revenue has advised the Company that Canadian holders of the common and preference shares of Domtar Limited are again entitled under the Canadian Income Tax Act to a 10% depletion allowance on dividends received in 1967.

Funded Debt

In April, 1967, the Company sold \$35.0 million of 6% sinking fund debentures, Series "F". The discount of \$875 thousand was deducted from earned surplus. As \$6.5 million of existing bonds and debentures were redeemed during the year, funded debt rose by \$28.5 million to \$169.0 million, including the funded debt due within one year.

Investments and Advances

The increase of \$6.8 million during the year was principally due to two items:

Domtar, in equal participation with its Italian partner Societa Meridionale Finanziaria, acquired a majority interest in Cartiera Italiana e Sertorio Riunite, a company with three mills located near Turin, Italy. Two of these mills produce fine papers and the third moulded fibre products for the automotive industry.

It was deemed advisable to continue to make advances to the Town and the School Commission of Lebel-sur-Quévillon for municipal services and schools until such time as it is feasible for them to do their own financing.

Plant and Equipment

As a result of the completion early in 1967 of the major pulp and paper expansion and modernization program, expenditures on plant and equipment amounted to only \$16.4 million compared with \$57.6 million in 1966 and \$66.5 million in the preceding year.

Several projects referred to in the previous Annual Report were still in the process of completion in 1967. The program for the expansion of packaging facilities continued with expenditures amounting to about \$1 million during the year. The renovation of the two newsprint machines at Dolbeau, Quebec, was finished early in 1968. The expansion of the facilities at Cooksville, Ontario, for the production of the lightweight aggregate "Haydite" should be ready by the Spring of 1968; the increased capacity will help to meet the growing demand for this product in concrete structures.

Equipment for the recovery of lime was installed in the Cornwall pulp mill at a cost of about \$1.2 million. This will enable the mill to comply with the new effluent specifications of the Ontario Water Resources Commission for reducing waste pollution. The project will show some return on the investment.

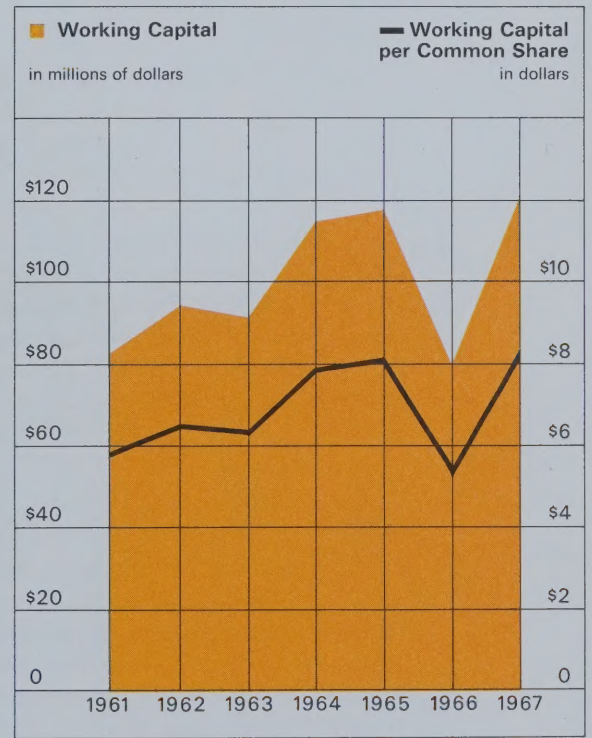
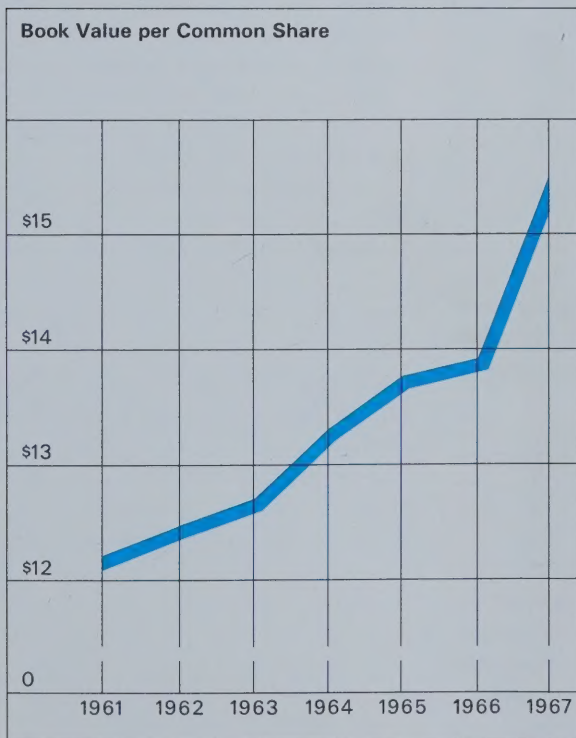
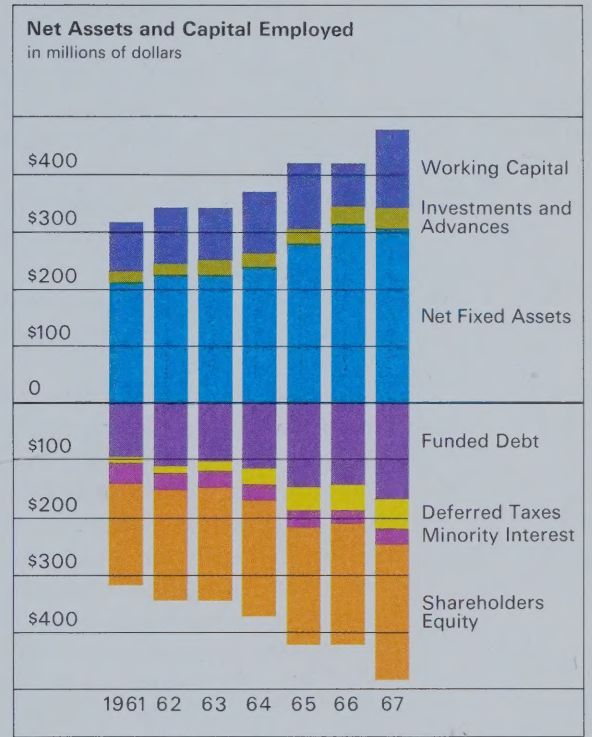
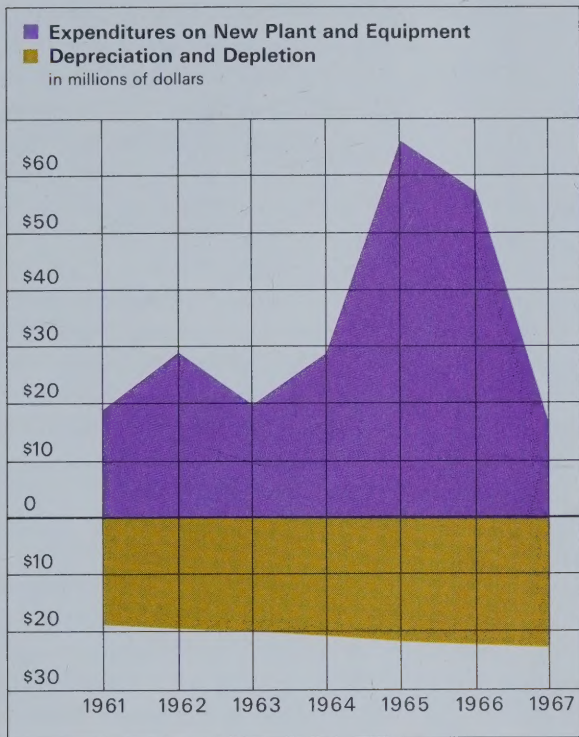
In 1963, the Company entered a new market with the production of coated publication grade papers at Trois-Rivières, Quebec. Sales have gone well and a second supercalender and ancillary equipment to increase capacity by about one-third are being installed. The new facilities are expected to be in operation by September of this year.

In June, Domtar purchased Vancouver Salt Company. This acquisition will strengthen the Company's market position in British Columbia. New integrated facilities at Port Mann, British Columbia, for receiving and processing solar salt will be built in 1968.

The capacity of the "Arborite" plastic laminates plant in the United Kingdom is being increased by the installation of a second press and other equipment at an estimated cost of \$1.4 million. Start-up of the new facilities is scheduled for the second half of 1968.

Equipment has been installed in Montreal for the manufacture of plastic pipe.

For some time the Company had been studying the advisability of building a mill for the production of newsprint and corrugating medium in Alabama. In view of the excess capacity now existing in the pulp and paper industry and the prevailing conditions in world markets for these products, it has been decided not to proceed with this project.



Sale of Consumer Products Division

This division of the Company was sold as of the close of business on December 31, 1967, for \$37.4 million to Javex Consumer Products Ltd., a company wholly owned by Bristol-Myers Company. The transaction was completed on January 30, 1968, and the accompanying financial statements reflect the sale.

Half of the purchase price was paid in cash and the balance by an interest-bearing promissory note due on January 31, 1969. The capital gain on the sale amounted to \$30.3 million.

While this Division has in the past made a contribution to the Company's earnings, the Domtar group is primarily engaged in the pulp and paper, industrial chemicals and construction materials industries. Consequently it was believed that the development and growth of this division would be materially enhanced by becoming a part of a large international organization such as Bristol-Myers, whose main interest lies in the manufacture and marketing of consumer products. The principal products of this division were household bleaches, starches, detergents and fabric finishers and softeners. The sale did not include any part of the Company's Sifto Salt business.

Working Capital

The consolidated net working capital position of the Company improved substantially. It amounted to \$121.3 million at the end of December last year compared with \$79.9 million at the end of 1966, an increase of about 50%. The ratio of current assets to current liabilities is 3.5 to 1.

Board of Directors

It is with great regret that we record the death of Mr. C. Gordon Cockshutt, M.C., on December 12, 1967 and the retirement of Mr. Shirley G. Dixon, Q.C., from the Board. Both Mr. Cockshutt and Mr. Dixon had been members of the Board of Gypsum, Lime and Alabastine, Canada, Limited for many

years and joined the Board of Domtar in 1959 when the business of Gypsum, Lime was acquired.

During the year, Mr. A. L. Fairley, Jr., was elected to the Board and appointed Chairman of the Executive Committee. Mr. Fairley is a Director and President of Hollinger Consolidated Gold Mines, Limited and a Director of Argus Corporation Limited.

Early in 1968, Mr. R. D. Harkness, D.S.O., M.C., asked to retire as a Director. The Board has regretfully accepted his resignation. Mr. Harkness first became a Director of Howard Smith Paper Mills, Limited, a subsidiary, in 1947 and was elected to the Domtar Board in October, 1961.

Personnel

In 1967 a number of organizational changes were made to designate more clearly areas of responsibility for profit generation and staff support. These changes placed new demands on many senior and middle management personnel. The Board expresses its appreciation to these employees and to personnel at all levels and in all locations whose individual efforts during the past year have made a valuable contribution to your Company.

On behalf of the Board
T. N. Beaupré, Chairman and President

Montreal, Quebec, March 11, 1968

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1967

	1967	1966 (restated)
Source of funds:		
Net income	\$ 9,113,877	\$16,484,374
Depreciation and depletion	22,250,000	22,000,000
Deferred income taxes	633,373	10,702,966
Cash flow	31,997,250	49,187,340
Debentures, net of discount	34,125,000	—
Common shares issued	—	1,225,848
Proceeds from sale of Consumer Products Division less interest-bearing note due January 31, 1969 of \$18,700,000 — Note 1	18,700,000	—
Transfer of income and other taxes to deferred income taxes — Note 2	3,483,000	(4,928,000)
	<u>88,305,250</u>	<u>45,485,188</u>
Application of funds:		
Fixed assets (before elimination of \$4,009,282 resulting from the sale of Consumer Products Division)	16,426,458	57,606,192
Dividends on preference shares	300,000	300,000
Dividends on common shares	13,230,630	14,641,461
Investments and advances	6,750,486	2,358,334
Reduction in funded debt	6,531,000	6,309,000
Reduction in minority interests	952,817	1,224,099
Increase in working capital* (before elimination of \$2,137,503 resulting from the sale of Consumer Products Division)	26,559,669	1,820,939
Other	267,736	226,311
	<u>71,018,796</u>	<u>84,486,336</u>
Increase or (decrease) in net cash position	17,286,454	(39,001,148)
Net cash position at beginning of year**	(16,911,897)	22,089,251
Net cash position at end of year**	<u>\$ 374,557</u>	<u>\$(16,911,897)</u>

*Excluding cash and short-term investments, bank indebtedness and funded debt due within one year.

**Represented by cash and short-term investments less bank indebtedness.

Consolidated Statement of Net Income

for the year ended December 31, 1967

	1967	1966 (restated)
Sales and revenues :		
Sales	\$428,003,663	\$430,058,659
Investment and sundry income	1,940,682	2,006,015
	<u>429,944,345</u>	<u>432,064,674</u>
Costs and expenses :		
Cost of sales and selling and administrative expenses	374,326,809	366,749,060
Depreciation (including depletion of \$172,461)	22,250,000	22,000,000
Interest on funded debt	9,408,068	7,946,524
Interest on other indebtedness	978,946	376,033
	<u>406,963,823</u>	<u>397,071,617</u>
Income before preproduction expenses, income taxes and minority interest	<u>22,980,522</u>	<u>34,993,057</u>
Preproduction expenses – Note 2	7,243,513	3,541,346
Current income taxes – Note 2	4,700,000	2,800,000
Deferred income taxes – Note 2	633,373	10,702,966
Minority interest	1,289,759	1,464,371
	<u>13,866,645</u>	<u>18,508,683</u>
Net income for the year – Note 2	<u>\$ 9,113,877</u>	<u>\$ 16,484,374</u>

Consolidated Statement of Earned Surplus

for the year ended December 31, 1967

	1967	1966 (restated)
Earned surplus, balance at beginning of year:		
As previously reported	\$94,594,373	\$85,367,114
Adjustments – Note 2	(33,024,346)	(25,340,000)
	<hr/>	<hr/>
Earned surplus as restated	61,570,027	60,027,114
Net income for the year	9,113,877	16,484,374
Gain on sale of Consumer Products Division – Note 1	30,263,516	—
	<hr/>	<hr/>
	100,947,420	76,511,488
	<hr/>	<hr/>
Discount on issue of debentures	875,000	—
Dividends on preference shares	300,000	300,000
Dividends on common shares	13,230,630	14,641,461
	<hr/>	<hr/>
	14,405,630	14,941,461
	<hr/>	<hr/>
Earned surplus, balance at end of year	<u>\$86,541,790</u>	<u>\$61,570,027</u>

Auditors' Report to the Shareholders:

We have examined the consolidated balance sheet of Domtar Limited and subsidiary companies as at December 31, 1967 and the consolidated statements of net income and earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the combined financial position of Domtar Limited and subsidiary companies as at December 31, 1967 and the results of their combined operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes in the methods of accounting for income taxes and preproduction expenses as described in Note 2 to the consolidated financial statements.

Price Waterhouse & Co., Chartered Accountants.
Montreal, January 31, 1968.

Assets

	1967	1966 (restated)
<i>Current assets:</i>		
Cash and short-term investments – Note 1	\$ 4,906,874	\$ 3,454,024
Receivables	66,573,977	69,011,421
Inventories of finished products, work in process, raw materials and supplies, at lower of cost and net realizable value	58,142,308	55,116,165
Pulpwood, at cost, and expenditures on woods operations	38,411,901	31,624,630
Prepaid expenses	2,408,978	1,302,000
	<u>170,444,038</u>	<u>160,508,240</u>
<i>Note receivable due January 31, 1969 – Note 1</i>	<u>18,700,000</u>	<u>—</u>
<i>Investments and advances, at cost:</i>		
Listed securities (quoted value – \$7,360,000)	13,319,969	13,319,969
Other investments and advances – Note 3	20,504,548	13,754,062
	<u>33,824,517</u>	<u>27,074,031</u>
<i>Fixed assets: – Note 4</i>		
Land and water power rights	6,649,187	6,886,240
Plant, machinery, facilities and timber limits	576,431,866	572,841,995
	<u>583,081,053</u>	<u>579,728,235</u>
Less: Accumulated depreciation (including \$6,309,395 for depletion)	<u>276,926,580</u>	<u>263,740,938</u>
	<u>306,154,473</u>	<u>315,987,297</u>
	<u><u>\$529,123,028</u></u>	<u><u>\$503,569,568</u></u>

Approved by the Board:
T. N. Beaupré, Director
Colin W. Webster, Director

as at December 31, 1967

Liabilities

	1967	1966 (restated)
<i>Current liabilities:</i>		
Bank indebtedness – Note 1	\$ 4,532,317	\$ 20,365,921
Payables	37,972,749	45,721,209
Income and other taxes – Note 2	465,105	7,177,395
Dividends payable	2,545,945	4,024,414
Funded debt due within one year	3,635,000	3,360,000
	<u>49,151,116</u>	<u>80,648,939</u>
<i>Funded debt – Note 5</i>	<u>165,369,000</u>	<u>137,175,000</u>
<i>Deferred income taxes – Note 2</i>	<u>53,660,831</u>	<u>48,554,758</u>
<i>Minority interests:</i>		
Preferred shares of subsidiary companies – Note 6	20,431,600	20,820,500
Common share equity in subsidiary companies	4,730,682	5,294,599
	<u>25,162,282</u>	<u>26,115,099</u>
<i>Capital:</i>		
Capital stock –		
\$1 cumulative redeemable preference shares, par value \$23.50, redeemable at \$25 –		
Authorized and issued – 300,000 shares	7,050,000	7,050,000
Common shares without nominal or par value –		
Authorized – 20,000,000 shares		
Outstanding – 14,700,700 shares	131,042,318	131,042,318
Surplus resulting from restatement of certain fixed assets – Note 7	11,145,691	11,413,427
Earned surplus, per statement attached	86,541,790	61,570,027
	<u>235,779,799</u>	<u>211,075,772</u>
	<u>\$529,123,028</u>	<u>\$503,569,568</u>

Notes to Consolidated Financial Statements as at December 31, 1967

Note 1 — Transaction after balance sheet date:

Under the terms of an agreement dated December 29, 1967, Domtar Limited sold the properties, rights, assets, business and goodwill of the Consumer Products Division as of the close of business on December 31, 1967 for a consideration of \$37,400,000. Domtar Limited received \$18,700,000 in cash on January 30, 1968 (date of closing) and accepted an interest bearing note for \$18,700,000 due January 31, 1969.

Retroactive effect to the above transaction has been given in the accompanying accounts as follows:

(a) Cash of \$18,700,000 received on January 30, 1968 has been applied against Canadian bank indebtedness of \$17,563,414 and the balance of \$1,136,586 has been included in the balance sheet with "Cash and Short-term Investments."

(b) The note receivable due January 31, 1969 has been shown separately in the balance sheet.

(c) The excess of the net proceeds from the sale over the net book value of the assets sold, less applicable deferred income taxes of approximately \$1,000,000, has been credited to earned surplus.

Note 2 — Changes in accounting policies:

Preproduction expenses —

During 1966 the company commenced amortizing, over a period of five years, preproduction expenses incurred in connection with the new pulp mill and chemical plant at Lebel-sur-Quévillon; amortization of approximately \$708,000 was included in the charge for depreciation recorded in the 1966 accounts.

In 1967 the company discontinued this method and charged preproduction expenses against income in the year incurred. The consolidated statement of net income for 1966 has been restated to reflect a charge of \$3,541,346 (including the \$708,000 referred to above) representing all preproduction expenses incurred in 1966.

Income taxes —

In 1967 the companies changed their method of accounting for income taxes and commenced providing for income taxes on the basis of reported income (tax allocation basis) as recommended by The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants. As a result, the balance of earned surplus at December 31, 1966 has been restated from amounts previously reported to reflect a retroactive charge of \$31,800,000 representing the accumulated income tax reductions at December 31, 1966 which had previously been disclosed in a note to the consolidated annual accounts. Of the above amount, \$6,460,000 is applicable to 1966 and has been shown as an increase in deferred income taxes for that year, the balance (applicable to years prior to 1966) being charged to earned surplus at January 1, 1966.

During 1967, an amount of \$3,483,000 was transferred from income and other taxes to deferred income taxes with no effect on consolidated net income.

The above changes in accounting policies have been retroactively applied to the statement of net income for 1966 in order to permit comparability between the years, with the following result:

Net income for 1966, as previously reported	\$24,168,720
Deduct:	
Write-off of unamortized balance of preproduction expenses, \$2,833,346, less applicable deferred income taxes	1,224,346
Provision for deferred income taxes applicable to 1966	6,460,000
	<u>7,684,346</u>
Net income for 1966, as restated	<u>\$16,484,374</u>

If the write-off of \$1,224,346 for unamortized balance of preproduction expenses had not been retroactively adjusted the net income reported for 1967 would have been \$7,889,531 instead of \$9,113,877.

Note 3 — Other investments and advances:

The amount shown includes \$1,399,204 of secured loans to the Trustees for employees under the company's stock purchase plan.

Note 4 — Fixed assets:

Land and water power rights are stated at cost. Plant, machinery, facilities and timber limits are stated generally at cost, including the excess of the cost of the shares of a partially owned subsidiary company over the book value of its net assets.

Note 5 — Funded debt:

Domtar Limited —

3½% First mortgage sinking fund bonds, Series "B", maturing August 1, 1970	\$ 900,000
5¼% Sinking fund debentures, Series "A", due June 1, 1978	18,750,000
6¼% Sinking fund debentures, Series "B", due May 1, 1980	10,950,000
5% Debentures, Series "C", due serially April 1, 1968 to 1969	1,500,000
5½% Debentures, Series "C", due April 1, 1982	15,200,000

5% Debentures, Series "D", due serially April 1, 1968 to 1970	2,400,000	Note 6 – Minority interests – Preferred shares of subsidiary companies:	
5% Debentures, Series "D", due April 1, 1984	16,000,000	Howard Smith Paper Mills, Limited –	
5% Sinking fund debentures, Series "E", due May 1, 1990	35,000,000	160,000 \$2 preferred shares of \$50 each, redeemable at \$52½	\$ 8,000,000
6% Sinking fund debentures, Series "F", due April 1, 1987	35,000,000	St. Lawrence Corporation Limited –	
	135,700,000	124,316 5% preferred shares of \$100 each, redeemable at \$103 to May 15, 1968; \$102 to May 15, 1971, and \$101 thereafter	12,431,600
Less: Held for sinking fund	1,272,000		
	134,428,000		\$20,431,600
Howard Smith Paper Mills, Limited –			
3% First mortgage bonds, 1950 Series, due December 1, 1968–1970	1,800,000	Note 7 – Surplus resulting from restatement of certain fixed assets:	
St. Lawrence Corporation Limited –		Excess of restated depreciated value over depreciated book value of certain fixed assets (unchanged during year)	\$15,141,969
First mortgage sinking fund bonds –		Net excess (after net increase of \$267,736 during 1967) of consideration for acquisition of shares of subsidiaries over book value of net assets	3,996,278
5% Series "A", due April 15, 1972	9,273,000		
4% Series "B", due April 15, 1972 (payable in U.S. funds)	3,372,000		
5% Series "C", due May 1, 1978	8,636,000		
Sinking fund debentures –			
6% Series "A", due June 15, 1980	13,400,000		
	34,681,000		
Less: Held for sinking fund	1,905,000		\$11,145,691
	32,776,000		
Total funded debt outstanding	169,004,000	Note 8:	
Less: Funded debt due within one year	3,635,000	Remuneration received by directors, including salaries of officers who are also directors, aggregated \$217,777 in 1967.	
	\$165,369,000		

Historical Review⁽¹⁾

	1967	1966	1965	1964	1963	1962	1961
Financial (\$ Millions)							
Net fixed assets	306.2	316.0	280.4	235.1	226.8	226.6	216.5
Net working capital	121.3	79.9	117.6	114.8	91.7	94.5	82.7
Investments and advances	52.5	27.1	24.7	22.0	21.3	17.4	17.3
Total net assets	480.0	423.0	422.7	371.9	339.8	338.5	316.5
Represented by :							
Funded debt	165.4	137.2	144.0	115.8	102.2	109.1	94.2
Deferred income taxes	53.7	48.6	42.8	26.3	16.5	11.4	8.1
Minority interest	25.1	26.1	27.3	27.9	28.8	29.2	32.3
Shareholders' equity	235.8	211.1	208.6	201.9	192.3	188.8	181.9
	480.0	423.0	422.7	371.9	339.8	338.5	316.5
Sales and Revenues :							
Pulp and Paper	272.0	272.3	255.3	240.5	220.3	216.1	207.6
Chemicals	75.0	73.7	70.7	63.9	58.7	55.4	49.6
Construction Materials	81.0	84.1	80.8	81.6	73.7	72.5	68.5
Other revenues	2.0	2.0	2.5	2.1	1.2	1.8	1.8
	430.0	432.1	409.3	388.1	353.9	345.8	327.5
Income before taxes	21.7 ⁽²⁾	33.5 ⁽²⁾	41.7	42.4	31.3	32.7	32.2
Current income taxes	4.7	2.8	3.5	11.5	10.5	12.0	13.4
Deferred income taxes	0.7	10.7	16.5	9.8	5.1	3.3	2.9
Net income	9.1	16.5	21.7	21.1	15.7	17.4	15.9
Cash flow	32.0	49.2	59.5	51.3	40.6	40.0	37.3
Capital expenditures	16.4	57.6	66.5	28.9	19.9	29.3	19.0
Net income per common share	\$ 0.60	1.10	1.46	1.42	1.06	1.17	1.09
Cash flow per common share	\$ 2.16	3.33	4.05	3.49	2.77	2.72	2.58
Book value per common share	\$15.56	13.88	13.78	13.33	12.72	12.48	12.21
Pulp and Paper Production (Tons)							
Newsprint	521,856	586,976	532,151	507,115	487,360	476,531	477,081
Kraft Paper and Board	388,912	378,394	435,705	428,705	406,418	415,298	379,321
Fine and Specialty Papers	204,525	207,572	179,529	170,511	131,441	125,116	116,156
Market Pulp	223,683	191,868	195,572	182,169	144,134	141,832	152,221
	1,338,976	1,364,810	1,342,957	1,288,500	1,169,353	1,158,777	1,124,779

(1) Figures have been adjusted to reflect the calculation of income taxes on a fully deferred basis and those for 1966 have been restated to reflect the writing off of the preproduction expenses of the pulp mill and chemical plant at Lebel-sur-Quévillon.

(2) Before deducting preproduction expenses relating to the pulp mill and chemical plant at Lebel-sur-Quévillon.

Report on Operations

Domtar Pulp and Paper Group

Domtar Woodlands Limited

Vice-President and General Manager — A. S. Fleming
840 Sun Life Building, Montreal, Quebec.

Effective planning in this company depends upon detailed information regarding timber resources, harvesting and distribution costs and the sources of purchased wood. These data are essential to the proper development of the Domtar companies which manufacture end products based on wood fibre. To this end, divisions have been amalgamated and accountability management introduced.

Wood deliveries to the mills during the year totalled approximately 1,750,000 cunits, an increase of 4% over 1966. About 47% of the wood was supplied from company-owned or leased lands. Of the remainder, 24% was purchased through Quebec Agricultural Marketing Boards. As wood is the major cost item in the manufacture of the products sold by the Domtar pulp and paper companies, major efforts to control cost increases of limit wood are being made by introducing new methods and sophisticated mechanical equipment. Unfortunately, the Company has limited influence on the pulpwood prices established by the Marketing Boards.

Domtar Newsprint Limited

Vice-President and General Manager — J. S. Hermon
840 Sun Life Building, Montreal, Quebec.

Although sales tonnage in 1967 was 11.3% lower than the previous year, newsprint produced at the company's mills at Trois-Rivières, Donnacona and Dolbeau, Quebec, and Red Rock, Ontario, resulted in sales valued in excess of \$65 million.

Reduced sales were common to the Canadian industry which operated at 86.6% of capacity in 1967 compared with 94.8% in 1966. These reductions were due to a slowdown in the economies of Canada's principal markets, particularly the United States, and to the introduction of approximately 375,000 tons of new capacity in the United States.

On July 1, 1967, the company advanced the price of newsprint to North American customers by \$3 a ton, but this increase did not fully compensate for the higher costs of wood, labour and transportation.

The company also produces linerboard at Red Rock and due to improvements made to the machine in 1966, production in 1967 was approximately 25% more than in the previous year. About 70% of this production is used by Domtar Packaging Limited for the production of containers. The mill at Trenton, Ontario, which produces corrugating medium, also for Domtar Packaging, ran efficiently on a seven-day-a-week basis. Reflecting difficult pulp markets and spiraling costs, it was found economically necessary to close the sulphite pulp facilities at Donnacona indefinitely.

Principal Products: Standard and specialty newsprint; coated publication grade and directory papers; linerboard; corrugating medium; and sulphite pulps.

Domtar Fine Papers Limited

Vice-President and General Manager — J. H. Robertson
2300 Sun Life Building, Montreal, Quebec.

This company, with mills at Cornwall, Toronto, Georgetown and St. Catharines, Ontario, and Beauharnois, Quebec, did not maintain in 1967 the rapid growth enjoyed in past years. Excess capacity and severe competitive conditions in both domestic and export markets were the main causes of the slowdown.

The Canadian fine paper industry now faces the challenge of the Kennedy Round tariff agreements. The cut in Canadian tariffs from 22½% to 15% on a major portion of imported fine papers will create greater competition from United States manufacturers. With reductions in United States tariffs on most fine papers, Canadian producers may find market opportunities below the border. There will undoubtedly be transitional problems as specialization increases and arrangements are made for the marketing of Canadian fine papers in the United States.

The International division experienced an eventful year. The performance of the fine paper industry in the United Kingdom continued to be adversely

affected by conditions of domestic over-supply, intense competition from imports from Scandinavia and Austria and the low level of business activity. The company's merchant sales organization, which was acquired in 1966, was reorganized and consolidated on a much more efficient basis. Further improvements were effected in the mill at Hendon. Despite the unfavourable domestic conditions, Domtar's fine paper operation in Great Britain showed improvement. Further major gains must be effected to make this a successful operation.

The new fine paper machine at the plant of Cellulosa d'Italia in Chieti, Italy, was brought into commercial production late in the year. This should lead to an improved financial picture in 1968. Annual combined production of this company and Cartiera Italiana e Sertorio Riunite, the new investment referred to in the Report of the Directors, totals over 130,000 tons of fine paper or approximately 15% of the Italian fine paper market. Domtar will, in due course, supply a large part of the pulp requirements of these companies.

Principal Products: Fine, specialty and coated papers for the printing trade and business, including rag and sulphite bonds and ledgers; lightweight and duplicating papers; book and writing papers; litho, offset and text papers; coated papers and boards; covers, bristols, blanks, railroad board, tags and blotting papers; papers for advertising; glassine, greaseproof and packaging papers; black line, blueprint, carbonizing and drawing papers; cigarette papers; banknote and safety cheque papers; and construction and poster papers for the schools.

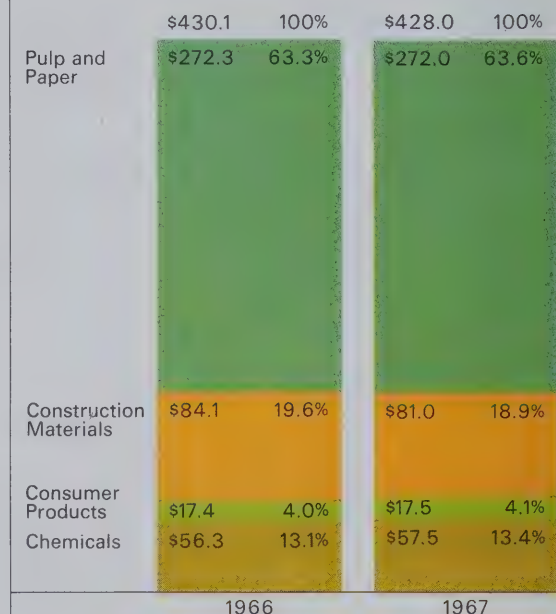
Domtar Pulp & Kraft Paper Ltd.

Vice-President and General Manager — J. P. Lunderville
2300 Sun Life Building, Montreal, Quebec.

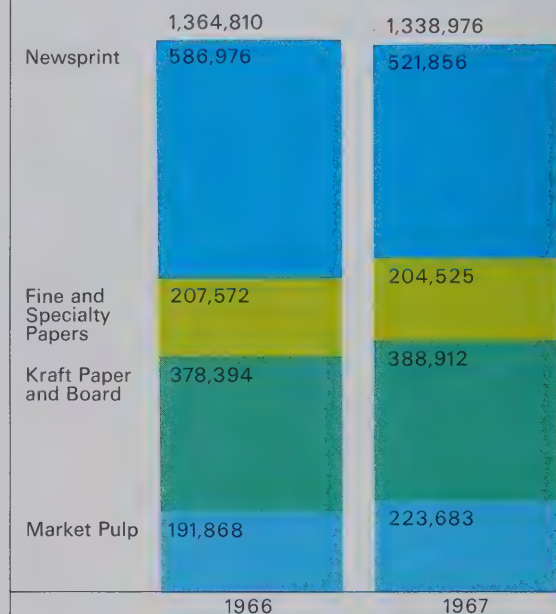
This company produces sulphate pulp at the new 750-ton-a-day mill at Lebel-sur-Quévillon and at its mill at Windsor, both located in Quebec.

The pulp mill at Quévillon entered the start-up phase during the first quarter of 1967. Mechanical and operating difficulties normally associated with a mill of this size were naturally encountered. With a number of pulp mills coming on stream at about the same time there was a considerable demand for skilled operators and this, coupled with the location of the Quévillon mill, resulted in a

Sales by Product Groups
in millions of dollars



Pulp and Paper Production
tons



heavy turnover of experienced personnel which added to the difficulties of the start-up. Many of these problems have now been overcome and quality pulps that have received excellent customer acceptance are assisting in the task of penetrating world markets where supply is considerably in excess of demand.

Recent major capital expenditures at the Windsor mill are now showing a return on the investment and with the development of the Quévillon mill it is expected that, as market demands dictate, Windsor mill produce mostly hardwood pulp, thus utilizing fibre resources that are more readily available in the area.

Both mills at Windsor and East Angus, Quebec, continue to produce high quality kraft papers. Approximately 20% of their production is converted into grocery and other bags by Domtar Packaging Limited, the remainder being sold to a wide variety of customers. During the latter part of the year some price deterioration was experienced, partly due to new imports from the United States which were encouraged by the prospect of Kennedy Round decreases in the Canadian tariff. The Windsor mill also produces certain grades of white fine papers and other specialties.

Principal Products: Bleached and unbleached softwood and hardwood sulphate pulp; semi-bleached softwood sulphate pulp; kraft papers and boxboards for conversion; and packaging and wrapping papers for the consumer trades.

Domtar Pulp and Paper Inc.

President — C. M. Fellows
277 Park Avenue, New York, N.Y.

Charged with the responsibility of selling Domtar newsprint and pulps in all markets outside of Canada, this company maintains a sales force in the United States and, through its export division, has established agency arrangements in all important world markets.

Principal Products for Sale: Domtar standard newsprint; hardwood and softwood sulphate pulps; and unbleached sulphite pulps.

Domtar Packaging Limited

Vice-President and Managing Director — W. H. Palm
45 Charles Street East, Toronto, Ontario.

This company, with net sales in excess of \$80 million, handles a very broad range of packaging.

Corrugated boxes produced in nine strategically located plants situated in five provinces, a full range of grocery, carry-out and other bags manufactured in two modern plants in the Eastern Townships of Quebec, fibre cans made in two plants in Ontario and folding cartons manufactured in Toronto are the main wood fibre products. In addition, plastic trays used in the confectionery and other trades are produced in plants in Montreal and Moorestown, New Jersey. The Montreal unit also produces extruded plastic pipe and a variety of injection moulded plastic products. The company also operates twelve distribution centres across Canada for wrapping paper, paper bags and miscellaneous related converted pulp and paper products.

Profits in 1967 improved significantly over 1966 although, at year-end, competition from United States manufacturers of wrapping papers and paper bags was a growing factor in the market.

Principal Products: Grocery and other paper bags; wrapping papers; towelling and tissue products; folding cartons, corrugated shipping containers; fibre cans and tubes; plastic food containers and trays; and extruded pipe and injection moulded products.

Construction

Domtar Construction Materials Ltd.

Vice-President and Managing Director — J. Cochran
2210 Place Ville Marie, Montreal, Quebec.

This company manufactures and markets a wide variety of products for use in the construction industry. It has twenty-two plants in Canada and one in the United Kingdom.

In 1967 the building industry did not enjoy the rate of growth shown by the Canadian economy generally; building contract awards were down 6% in value from the 1966 level. Consequently, sales in 1967 at \$81.0 million were slightly lower

than in the previous year. Shipments of clay and gypsum products declined and the strikes of three months' duration at the "Arborite" plastic laminate and "Siporex" cellular concrete plants adversely affected sales of these products. In the United Kingdom "Arborite" continues to gain in market acceptance with sales showing substantial improvement. The severe decline of the past two years in realization on fibre products was generally arrested in 1967.

Largely as a result of the strikes referred to above, operating profits in 1967 were down appreciably from the 1966 level.

The precast concrete plant at Scarborough, Ontario, was shut down during the year as the operation has not proven profitable.

Housing requirements in Canada continue to move upward. It is estimated that about 190,000 units are needed annually to meet the country's physical requirements. The inventory of completed and unoccupied units at the end of 1967 was exceptionally low relative to housing demand. Steps to increase the flow of mortgage money through changes in the Bank Act and the recent increase in the National Housing Act maximum interest rate are expected to increase the rate of house construction although interest rates are likely to remain high. Demand for this company's products, particularly in residential construction, should improve during 1968, especially in the latter part of the year.

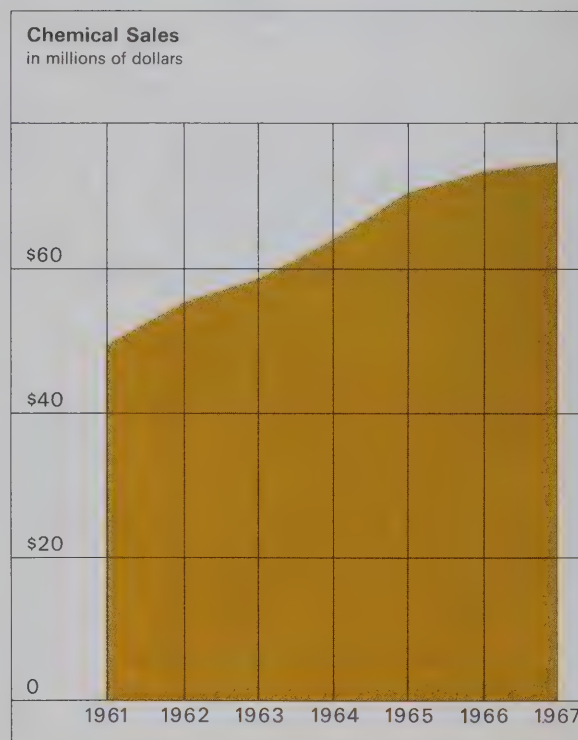
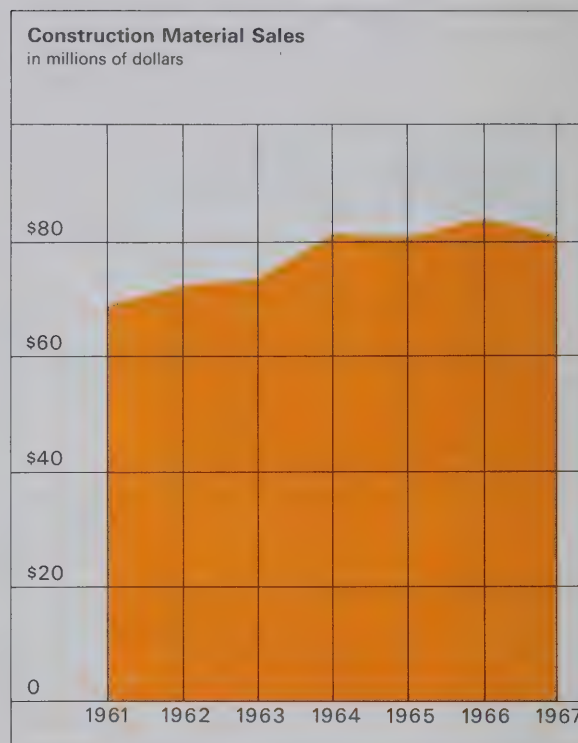
Principal Products: Brick and structural tile; acoustical plasters; fibre conduit and sewer and drainage pipe; asphalt shingles, roll roofing and siding; roof, sheathing and panel board; ceiling tiles and grid panels; linear ceiling systems; partition systems; gypsum lath, plank and wallboard; wall panelling; plastic laminates; lumber products; lightweight cellular concrete products; and light-weight aggregate.

Chemicals

Domtar Chemicals Limited

Vice-President and Managing Director – A. Monsaroff
3600 Canadian Imperial Bank of Commerce Building,
Montreal, Quebec.

The company consists of six divisions which together manufacture a wide range of industrial



chemicals in facilities located across Canada and in the United States.

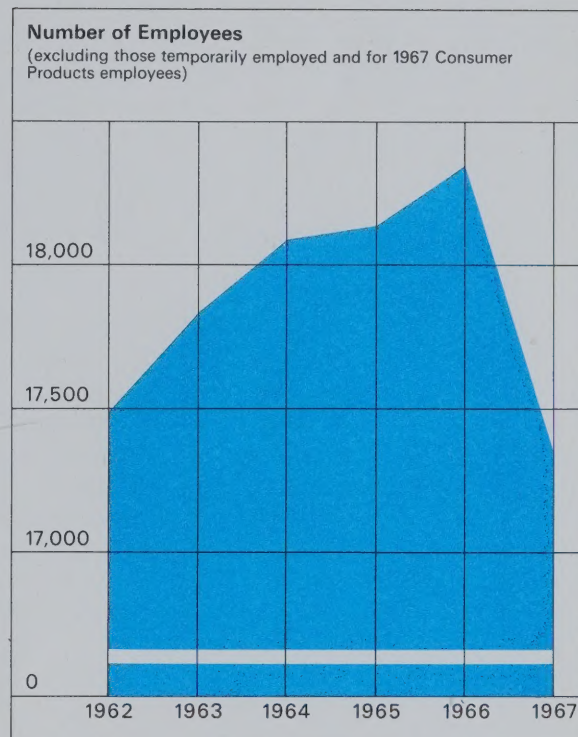
Sales of the Sifto Salt division reached a record level due to weather conditions which increased the demand for rock salt in eastern Canada and the United States. The high level of operations maintained at the company's three evaporator plants was marred only by a seven-week strike at Goderich, Ontario. The purchase of Vancouver Salt Company in June, 1967, will strengthen Domtar's market position in British Columbia.

The results of the Wood Preserving division were adversely affected by a ten-week strike at the plant at Delson, Quebec, and by the reduced volume of work undertaken by the federal and provincial governments in the Atlantic and Pacific regions. Greater emphasis is being placed on research and the development of specialized materials handling equipment will help to improve future profits.

The Lime division services a large number of industries with its basic products. Sales gradually improved during 1967 although demand from the construction and pulp and paper industries was relatively low. Deliveries to the steel industry were well maintained. The new limestone quarry on Texada Island, British Columbia, and the renovation of the shaft kilns at Beachville, Ontario, are nearing completion and the benefits of these investments will begin to accrue in 1968.

The new naphthalene plant in Toronto which is based on technology developed by Domtar was completed by the Tar and Chemical division in 1967. While sales were lower than in 1966 because of shifts in market demand, the year as a whole was one of progress for this division. The plant at Sault Ste. Marie, Ontario, is being expanded to provide additional electrode pitch for the aluminum industry.

The Metal Powders division completed its new plant at Ridgway, Pennsylvania, and all pre-production problems were resolved by the end of the year. The quality of products from the U.S. and Canadian plants is excellent. The expanded research program undertaken in Domtar's research centre at Senneville, Quebec, where a new pilot plant has been built, adds further strength to this division's competitive position in powder metallurgy.



The financial performance of Chemical Developments of Canada Limited, a partly owned subsidiary, was affected by reduced activity in the textile and pulp and paper industries. A rising trend in sales of some detergent raw materials is now in evidence. A new office and laboratory have been built at Longford Mills, Ontario, where the manufacturing plant is located.

Principal Products: "Sifto" salt; pressure-treated and fire-retardant wood; coal tar pitches and acids; creosote; naphthalene and phthalic anhydride; limestone, hydrated lime and quicklime; iron and iron alloy powders; synthetic detergents; wetting agents; carboxymethylcellulose; and dye-stuffs and pigments.

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